

CITY OF SCRANTON
OSAGE COUNTY, KANSAS
INDEPENDENT AUDITORS' REPORT AND
STATUTORY BASIS FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

ALDRICH AND COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS
COUNCIL GROVE, KANSAS 66846

City of Scranton
Osage County, Kansas

STATUTORY BASIS FINANCIAL STATEMENTS
Year Ended December 31, 2011

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ALDRICH & COMPANY, LLC

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

Mayor and City Council
208 S. Brownie Avenue
Scranton, Kansas 66537

Members of the Governing Body

We have audited the accompanying financial statements of the City of Scranton, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of City of Scranton, Kansas, management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's 2010 financial statements and, in our report dated August 15, 2011, we expressed an unqualified opinion on the respective financial statements, taken as a whole, on the statutory basis of accounting.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the guidance in the Kansas Municipal Audit Guide, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the City of Scranton, Kansas, prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of differences between Kansas statutory basis and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Scranton, Kansas, as of December 31, 2011, or the changes in its financial position or, where applicable, its cash flows for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Scranton, Kansas, as of December 31, 2011, and its cash receipts and expenditures and budget to actual comparisons, for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2012, on our consideration of the City of Scranton, Kansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion of the financial statements taken as a whole. The accompanying financial information listed as Schedule of Insurance Coverage is presented for purposes of additional analysis and is not a required part of the statutory basis financial statements of the City of Scranton, Kansas. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Aldrich & Company, LLC

ALDRICH AND COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS
August 29, 2012

The City of Scranton
Osage County, Kansas

STATEMENT 1

Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:						
General	\$ 123,787	\$ 235,716	\$ 287,242	\$ 72,261	\$ 38,958	\$ 111,219
Special Revenue						
Special parks	14,639	885	0	15,524	0	15,524
Special development	59,146	0	0	59,146	0	59,146
Special highway	57,321	18,033	5,000	70,354	0	70,354
Drug forfeiture	0	0	0	0	0	0
Special fire	485	100	0	585	0	585
Equipment reserve	0	0	0	0	0	0
Capital improvements	0	0	0	0	0	0
Capital Project Funds						
Sewer project	(70,207)	2,964,069	2,305,324	588,538	1,281	589,819
Proprietary Type Funds						
Water utility	52,945	158,931	182,970	28,906	9,789	38,695
Electric utility	527,901	486,865	383,174	631,592	31,358	662,950
Sewer utility	134,157	88,886	94,208	128,835	3,409	132,244
Refuse	(499)	56,982	58,816	(2,333)	4,711	2,378
Total Reporting Entity	<u>\$ 899,675</u>	<u>\$ 4,010,467</u>	<u>\$ 3,316,734</u>	<u>\$ 1,593,408</u>	<u>\$ 89,506</u>	<u>\$ 1,682,914</u>

Composition of Cash:

Petty Cash	\$ 200
Regular checking	349,628
Certificates of deposit	735,237
Grant account	597,849
	<u>\$ 1,682,914</u>

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

STATEMENT 2

Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2011

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
Governmental Type Funds:					
General	\$ 323,261		\$ 323,261	\$ 287,242	\$ 36,019
Special Revenue					
Special parks	19,183		19,183	0	19,183
Special development	59,146		59,146	0	59,146
Special highway	67,503		67,503	5,000	62,503
Drug forfeiture	1,263		1,263	0	1,263
Special fire	385		385	0	385
Proprietary Type Funds					
Water utility	165,755		165,755	182,970	(17,215)
Electric utility	492,848		492,848	383,174	109,674
Sewer utility	84,781		84,781	94,208	(9,427)
Refuse	58,158		58,158	58,816	(658)

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-1

GENERAL FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

With Comparative Actual Totals for the Prior Year Ended December 31, 2010

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Taxes				
Osage Co	\$ 129,143	\$ 130,275	\$ 137,766	\$ (7,491)
Sales tax	30,344	60,247	29,000	31,247
Franchise taxes	8,355	8,031	9,000	(969)
Total Taxes	<u>167,842</u>	<u>198,553</u>	<u>175,766</u>	<u>22,787</u>
Intergovernmental				
Local alcoholic liquor	2,834	885	3,408	(2,523)
LAVTR	0	0	0	0
Revenue sharing	0	0	0	0
Total Intergovernmental	<u>2,834</u>	<u>885</u>	<u>3,408</u>	<u>(2,523)</u>
Licenses and Permits				
Licenses, Permits, and Fees	<u>1,584</u>	<u>1,501</u>	<u>1,000</u>	<u>501</u>
Use of Money and Property				
Interest on deposits	<u>13,121</u>	<u>10,423</u>	<u>15,000</u>	<u>(4,577)</u>
Miscellaneous Revenue				
FEMA/State	4,568	0	0	0
Court	26,949	19,557	10,000	9,557
Other	8,254	4,797	2,000	2,797
Total Miscellaneous	<u>39,771</u>	<u>24,354</u>	<u>12,000</u>	<u>12,354</u>
Operating Transfers				
Water utility	0	0	0	0
Sewer utility	0	0	0	0
Electric utility	42,000	0	42,000	(42,000)
Capital Improvement	52,048	0	0	0
Total Transfers	<u>94,048</u>	<u>0</u>	<u>42,000</u>	<u>(42,000)</u>
Total Cash Receipts	<u>\$ 319,200</u>	<u>\$ 235,716</u>	<u>\$ 249,174</u>	<u>\$ (13,458)</u>

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-1

GENERAL FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
	Actual	Actual	Budget	
Expenditures				
General administrative				
Personal	\$ 20,049	\$ 21,973	\$ 30,429	\$ 8,456
Contractual	13,503	18,722	14,477	(4,245)
Commodities	4,013	11,674	16,774	5,100
Capital outlay	0	467	5,513	5,046
Total General administrative	<u>37,565</u>	<u>52,836</u>	<u>67,193</u>	<u>14,357</u>
Street Department				
Personal	21,056	12,341	26,986	14,645
Contractual	13,997	11,710	13,807	2,097
Commodities	46,715	58,881	59,388	507
Capital outlay	0	0	0	0
Total Street Department	<u>81,768</u>	<u>82,932</u>	<u>100,181</u>	<u>17,249</u>
Fire Department				
Personal	1,037	655	650	(5)
Contractual	9,836	5,474	4,253	(1,221)
Commodities	8,239	7,457	9,513	2,056
Capital outlay	0	0	0	0
Fire loan repayment	3,718	0	0	0
Total Fire Department	<u>22,830</u>	<u>13,586</u>	<u>14,416</u>	<u>830</u>
Parks Department				
Personal	639	1,934	2,100	166
Contractual	10,159	9,549	11,025	1,476
Saturday in the Park	2,000	1,000	1,000	0
Commodities	4,938	1,751	4,253	2,502
Capital outlay	0	0	0	0
Total Parks Department	<u>17,736</u>	<u>14,234</u>	<u>18,378</u>	<u>4,144</u>
Law Enforcement				
Personal	63,584	73,103	85,333	12,230
Contractual	20,569	20,463	13,892	(6,571)
Commodities	14,143	15,020	10,414	(4,606)
Capital outlay	0	0	0	0
Total Law Enforcement	<u>98,296</u>	<u>108,586</u>	<u>109,639</u>	<u>1,053</u>
Court				
Personal	5,027	5,710	5,807	97
Contractual	9,910	9,152	5,460	(3,692)
Commodities	483	206	1,837	1,631
Total Court	<u>15,420</u>	<u>15,068</u>	<u>13,104</u>	<u>(1,964)</u>
Emergency preparedness				
Personal	289	0	350	350
Contractual	152	0	0	0
Total Emergency preparedness	<u>441</u>	<u>0</u>	<u>350</u>	<u>350</u>
Total Expenditures	<u>\$ 274,056</u>	<u>\$ 287,242</u>	<u>\$ 323,261</u>	<u>\$ 36,019</u>

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-1

GENERAL FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Total Cash Receipts				
Carried Forward	\$ 319,200	\$ 235,716	\$ 249,174	\$ (13,458)
Total Expenditures				
Carried Forward	<u>274,056</u>	<u>287,242</u>	<u>323,261</u>	<u>36,019</u>
Receipts Over (Under) Expenditures	45,144	(51,526)	<u><u>\$ (74,087)</u></u>	<u><u>\$ 22,561</u></u>
Unencumbered Cash Balance, January 1	<u>78,643</u>	<u>123,787</u>		
Unencumbered Cash Balance, December 31	<u><u>\$ 123,787</u></u>	<u><u>\$ 72,261</u></u>		

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-2a

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

SPECIAL PARKS FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
State of Kansas	\$ 2,834	\$ 885	\$ 3,408	\$ (2,523)
Osage Co	0	0	0	0
Total Cash Receipts	<u>2,834</u>	<u>885</u>	<u>3,408</u>	<u>(2,523)</u>
Expenditures				
Park repair & maintenance	<u>0</u>	<u>0</u>	<u>19,183</u>	<u>19,183</u>
Receipts Over (Under) Expenditures	2,834	885	<u>\$ (15,775)</u>	<u>\$ 16,660</u>
Unencumbered Cash Balance, January 1	<u>11,805</u>	<u>14,639</u>		
Unencumbered Cash Balance, December 31	<u>\$ 14,639</u>	<u>\$ 15,524</u>		

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-2b

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

SPECIAL DEVELOPMENT FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Interest	\$ 0	\$ 0	\$ 0	\$ 0
Expenditures				
Business development	0	0	59,146	59,146
Receipt Over (Under) Expenditures	0	0	<u>\$ (59,146)</u>	<u>\$ 59,146</u>
Unencumbered Cash Balance, January 1	<u>59,146</u>	<u>59,146</u>		
Unencumbered Cash Balance, December 31	<u>\$ 59,146</u>	<u>\$ 59,146</u>		

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-2c

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

SPECIAL HIGHWAY FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
State payments	\$ 18,167	\$ 18,033	\$ 18,730	\$ (697)
Other	3,055	0	0	0
Total Cash Receipts	<u>21,222</u>	<u>18,033</u>	<u>18,730</u>	<u>(697)</u>
Expenditures				
Personal	0	0	0	0
Street repair and maintenance	4,684	5,000	67,503	62,503
Total Expenditures	<u>4,684</u>	<u>5,000</u>	<u>67,503</u>	<u>62,503</u>
Receipts Over (Under) Expenditures	16,538	13,033	<u>\$ (48,773)</u>	<u>\$ 61,806</u>
Unencumbered Cash Balance, January 1	<u>40,783</u>	<u>57,321</u>		
Unencumbered Cash Balance, December 31	<u>\$ 57,321</u>	<u>\$ 70,354</u>		

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-2d

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

DRUG FORFEITURE FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Drug forfeiture proceeds	\$ 606	\$ 0	\$ 0	\$ 0
Total Cash Receipts	<u>606</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expenditures				
Law enforcement expenditures	<u>1,869</u>	<u>0</u>	<u>1,263</u>	<u>1,263</u>
Total Expenditures	<u>1,869</u>	<u>0</u>	<u>1,263</u>	<u>1,263</u>
Receipts Over (Under) Expenditures	(1,263)	0	<u>\$ (1,263)</u>	<u>\$ 1,263</u>
Unencumbered Cash Balance, January 1	<u>1,263</u>	<u>0</u>		
Unencumbered Cash Balance, December 31	<u>\$ 0</u>	<u>\$ 0</u>		

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-2e

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

SPECIAL FIRE

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Donations	\$ 100	\$ 100	\$ 0	\$ 100
Total Cash Receipts	<u>100</u>	<u>100</u>	<u>0</u>	<u>100</u>
Expenditures				
Fire expenditures	<u>0</u>	<u>0</u>	<u>385</u>	<u>385</u>
Total Expenditures	<u>0</u>	<u>0</u>	<u>385</u>	<u>385</u>
Receipts Over (Under) Expenditures	100	100	<u>\$ (385)</u>	<u>\$ 485</u>
Unencumbered Cash Balance, January 1	<u>385</u>	<u>485</u>		
Unencumbered Cash Balance, December 31	<u>\$ 485</u>	<u>\$ 585</u>		

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-2f

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

EQUIPMENT RESERVE

	<u>2010</u>	<u>2011</u>
Cash Receipts		
Transfers in	\$ 0	\$ 0
Interest	0	0
Other	0	0
Total Cash Receipts	<u>0</u>	<u>0</u>
Expenditures		
Equipment purchases	<u>22,060</u>	<u>0</u>
Receipts Over (Under) Expenditures	(22,060)	0
Unencumbered Cash Balance, January 1	<u>22,060</u>	<u>0</u>
Unencumbered Cash Balance, December 31	<u>\$ 0</u>	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-2g

SPECIAL REVENUE FUNDS
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

CAPITAL IMPROVEMENT

	2010	2011
Cash Receipts		
Transfer from general	\$ 0	\$ 0
Interest	0	0
Total Cash Receipts	<u>0</u>	<u>0</u>
Expenditures		
Transfer to general fund	<u>52,048</u>	<u>0</u>
Receipts Over (Under) Expenditures	(52,048)	0
Unencumbered Cash Balance, January 1	<u>52,048</u>	<u>0</u>
Unencumbered Cash Balance, December 31	<u>\$ 0</u>	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-3a

CAPITAL PROJECT FUNDS
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

SEWER PROJECT

	<u>2010</u>	<u>2011</u>
Cash Receipts		
Grant/loan proceeds	\$ 192,951	\$ 2,961,213
Interest	<u>0</u>	<u>2,856</u>
Total Cash Receipts	<u>192,951</u>	<u>2,964,069</u>
Expenditures		
Contractual	262,960	2,305,261
Commodities	<u>198</u>	<u>63</u>
Total Expenditures	<u>263,158</u>	<u>2,305,324</u>
Receipts Over (Under) Expenditures	(70,207)	658,745
Unencumbered Cash Balance, January 1	<u>0</u>	<u>(70,207)</u>
Unencumbered Cash Balance, December 31	<u>\$ (70,207)</u>	<u>\$ 588,538</u>

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-4a

PROPRIETARY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

WATER UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 155,656	\$ 153,035	\$ 145,941	\$ 7,094
Interest income	0	0	0	0
Other receipts	3,882	5,896	4,000	1,896
Total Cash Receipts	159,538	158,931	149,941	8,990
Expenditures				
Personal services	41,794	46,332	32,235	(14,097)
Contractual services	32,990	25,990	27,562	1,572
Commodities	13,571	15,446	14,396	(1,050)
Water purchased & RWD note	76,080	77,478	72,009	(5,469)
Debt service	13,600	14,250	14,250	0
Other	1,380	3,474	5,303	1,829
Transfer to general fund	0	0	0	0
Total Expenditures	179,415	182,970	165,755	(17,215)
Receipts Over (Under) Expenditures	(19,877)	(24,039)	<u>\$ (15,814)</u>	<u>\$ (8,225)</u>
Unencumbered Cash Balance, January 1	72,822	52,945		
Unencumbered Cash Balance, December 31	<u>\$ 52,945</u>	<u>\$ 28,906</u>		

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-4b

PROPRIETARY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

ELECTRIC UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 500,974	\$ 467,430	\$ 520,000	\$ (52,570)
Sales tax collected	8,381	11,218	0	11,218
Interest income	0	0	0	0
Deposit receipts	2,275	2,993	0	2,993
Other receipts	14,270	5,224	0	5,224
Total Cash Receipts	525,900	486,865	520,000	(33,135)
Expenditures				
Personal services	43,733	50,171	47,334	(2,837)
Contractual services	25,267	15,490	31,710	16,220
Commodities	13,866	27,099	59,399	32,300
Electricity purchased	268,006	274,417	285,000	10,583
Capital outlay	0	0	13,125	13,125
Sales tax paid	7,971	12,323	9,030	(3,293)
Deposit refunds	1,828	3,674	5,250	1,576
Transfers to other funds	42,000	0	42,000	42,000
Adjustment for budget credit	0	0	0	0
Total Expenditures	402,671	383,174	492,848	109,674
Receipts over (under) Expenditures	123,229	103,691	\$ 27,152	\$ 76,539
Unencumbered Cash Balance, January 1	404,672	527,901		
Unencumbered Cash Balance, December 31	\$ 527,901	\$ 631,592		

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-4c

PROPRIETARY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

SEWER UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 91,649	\$ 87,906	\$ 91,750	\$ (3,844)
Other	945	980	0	980
Total Cash Receipts	<u>92,594</u>	<u>88,886</u>	<u>91,750</u>	<u>(2,864)</u>
Expenditures				
Personal services	36,512	40,998	29,736	(11,262)
Commodities	12,146	13,118	13,388	270
Contractual services	11,828	12,242	13,807	1,565
Debt repayments	27,850	27,850	27,850	0
Transfer to sewer reserve	0	0	0	0
Transfer to general	0	0	0	0
Total Expenditures	<u>88,336</u>	<u>94,208</u>	<u>84,781</u>	<u>(9,427)</u>
Receipts Over (Under) Expenditures	4,258	(5,322)	<u>\$ 6,969</u>	<u>\$ (12,291)</u>
Unencumbered Cash Balance, January 1	<u>129,899</u>	<u>134,157</u>		
Unencumbered Cash Balance, December 31	<u>\$ 134,157</u>	<u>\$ 128,835</u>		

The notes to the financial statements are an integral part of this statement.

The City of Scranton
Osage County, Kansas

Statement 3-4d

PROPRIETARY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011
With Comparative Actual Totals for the Prior Year Ended December 31, 2010

REFUSE UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 55,842	\$ 56,982	\$ 58,000	\$ (1,018)
Expenditures				
Personal services	741	832	751	(81)
Commodities	186	234	0	(234)
Contractual Services	56,423	57,750	57,407	(343)
Total Expenditures	57,350	58,816	58,158	(658)
Receipts Over (Under) Expenditures	(1,508)	(1,834)	<u>\$ (158)</u>	<u>\$ (1,676)</u>
Unencumbered Cash Balance, January 1	1,009	(499)		
Unencumbered Cash Balance, December 31	<u>\$ (499)</u>	<u>\$ (2,333)</u>		

The notes to the financial statements are an integral part of this statement.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The more significant accounting policies are described below.

Financial Reporting Entity

The City of Scranton is a governmental entity and operates under a Mayor-Council form of Government. It provides the following services to its approximately 300 residents: public safety, streets, sanitation, electric, water, parks & recreation, and general administrative services.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The basic--but not the only--criterion for including a potential component unit within the reporting entity is financial accountability. The most significant manifestation of this criterion is financial dependence. Other manifestations of the criteria, include but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Using this criterion, no component units were identified as part of the reporting entity of the City.

Fund Accounting

The accounts of the City are organized and operated on the basis of funds, which are used to record the City's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State Statutes and City Ordinances. The following types of funds comprise the financial activities of the City.

Governmental Funds:

General Fund - Fund used as the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Funds used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Project Funds - Funds used to account for financial resources for the acquisition or construction of major capital facilities of the City.

Proprietary Funds:

Enterprise Funds - Funds used to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City of Scranton has four enterprise funds: Electric, Water, Sewer and Refuse.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Statutory Basis of Accounting (cont)

when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense; liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of a fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods sold and services received during the year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the city are not presented in the financial statements. Also, long term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

NOTE 2 - BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held, and the governing body may amend the budget at that time. No such amendments were made.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 2 - BUDGETARY INFORMATION (CONT)

All legal annual operating budgets are to be prepared using the statutory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payables and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, fiduciary funds, permanent funds and the following special revenue funds: Equipment Reserve and Capital Improvements

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Adjustments Qualifying for Budget Credits

Budget credits must be authorized by Kansas Statutes. Examples include expenditures of federal grant moneys, gifts, and donations, and receipts authorized by law to be spent as if they were reimbursed expenses. The adjustment for budget credits, when applicable, is presented in the financial statements which increase the legal budget amounts for the respective funds.

NOTE 3 - CASH AND DEPOSITS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires that banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no other policies that would further limit its investment choices.

Concentration of credit risk State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits Custodial credit risk is the risk that in event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2011.

The City maintains a cash pool that is available for use by all funds. At year-end the carrying amount of the city's deposits was \$1,682,714. The bank balance held by one bank was \$1,687,178, resulting in a concentration of credit risk. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$250,000 was covered by FDIC insurance, \$1,437,178 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the city's name.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 4 - LONG-TERM DEBT

Water System Revenue Bonds Series 1982-A

Water system revenue bonds series 1982-A are serial bonds to be retired in the year 2022. Principal and interest payments are paid annually from the revenues generated by the Water Utility. Interest is paid at an annual rate of 5%.

K.D.H.E. - Notes Payable

The City received a low interest loan from the Kansas Department of Health and Environment in 1994 for the purpose of matching a CDBG Grant for a Sewer Improvement Project. The interest rate is 3.51% with 40 semiannual payments. In 2004, the City amended the loan to receive an additional \$189,817 from the Kansas Department of Health and Environment for necessary upgrades to their sewer utility system. The loan carries an interest rate of 2.66% with 40 semiannual payments scheduled. The first payment was made in September 2005. Payments are made from the sewer fund. This note is scheduled to be paid in full with the new sewer project in 2012.

Rural Water District No. 5 - Contract Payable

On February 19, 1982, the City entered into a 40 year contract with Rural Water District No. 5 of Osage County, Kansas, to purchase purified water. The District agreed to deliver pure water not to exceed 3,240,000 gallons per month with a minimum pressure of 20 p.s.i. In return, the City will pay \$400,000 for 40 years of rights, of which \$20,000 was paid down in 1981. Beginning in May of 1983, the balance was due in installments of \$1,900 per month for 37 years. Interest is paid at an annual rate of 5%. An estimate of the debt, based on the remaining scheduled payments, has been included on the Long Term Debt Schedule. Payments are made from the water fund.

Distributor lease

In August 2009, the City entered into a lease with First Bank for a distributor truck. The amount financed was \$34,500. The lease carries an annual interest rate of 4.26%. Ten payments of \$3,786 and a final \$1 payment are scheduled with the first payment being made September 2009. Payments were made from the general & special highway funds.

Truck lease

In August 2010, the City entered into a lease with First Bank for the purchase of two trucks. The amount financed was \$24,250. The lease carries an annual interest rate of 4.25%. One payment of \$2,425 was made in 2010 with the signing of the lease. Three annual payments of \$7,912 and a final \$1 payment are scheduled with the first payment being made August 2011. Payments were split between the water, electric & sewer funds.

Backhoe lease

In June 2011, the City entered into a lease with Kansas State Bank of Manhattan for the purchase of a Case 580N backhoe. The amount financed was \$53,124. The lease carries an annual interest rate of 5.181%. Five annual payments of \$12,332 are scheduled with the first payment being due June 2012. Payments were split between the water & sewer funds.

General Obligation Bonds

To finance a sewer system upgrade the city issued general obligation bonds on March 28, 2012 in the amount of \$2,420,000. The bonds carry an interest rate of 3%. Payments are scheduled to begin on March 28, 2013. To fund improvements prior to the issuance of these bonds, temporary financing was obtained through the Silver Lake Bank in the amount of \$2,325,000 and carried an interest rate of 4%. This temporary financing was repaid in March 2012 in the amount of \$2,418,000 including interest.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 4 - LONG TERM DEBT (CONT)

Changes in long term liabilities for the City for the year ended December 31, 2011 are as follows:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Payable January 1</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance Payable December 31</u>	<u>Interest Paid</u>
Revenue Bonds:										
Water Sys Bd Ser 1982-A	5.00%	12/17/1982	233,000	12/17/2022	\$ 125,000	\$ 0	\$ 8,000	\$ 0	\$ 117,000	\$ 6,250
KDHE loans										
KDHE - Sewer Imp	3.51%	5/27/1994	213,380	3/1/2015	60,513	0	12,640	0	47,873	2,015
KDHE - Sewer Imp	2.66%	9/1/2004	199,000	3/1/2024	333,326	136,980	1,723	0	468,583	11,472
General Obligation Bonds										
Silver Lake Bank-temporary					0	2,325,000	0	0	2,325,000	0
Rural water										
Rural Water District #5	5.00%	2/19/1982	400,000	4/10/2020	169,178	0	14,540	0	154,638	8,260
Capital lease										
KSB-Backhoe	5.18%	6/5/2011	53,124	6/5/2016	0	53,124	0	0	53,124	0
First Bank-Distributor	4.25%	8/24/2009	34,500	8/24/2014	24,383	0	6,604	0	17,779	968
First Bank-Trucks	7.70%	11/2/2007	19,939	11/2/2009	<u>21,825</u>	<u>0</u>	<u>6,972</u>	<u>0</u>	<u>14,853</u>	<u>940</u>
Total contractual indebtedness					734,225	2,515,104	50,479	0	3,198,850	29,905
Compensated absences					<u>6,212</u>	<u>0</u>	<u>0</u>	<u>(106)</u>	<u>6,106</u>	<u>0</u>
Total long term debt					<u>\$ 740,437</u>	<u>\$ 2,515,104</u>	<u>\$ 50,479</u>	<u>\$ (106)</u>	<u>\$ 3,204,956</u>	<u>\$ 29,905</u>

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 4 - LONG TERM DEBT (CONT)

Current maturities of long term debt and interest for the next five years and in five year increments through maturity are as follows:

	2012	2013	2014	2015	2016	2017-2021	2022-2026	2027-2031	2032-2036	2037-2041	2042-2046	2047-2051	2,052	Total
Principal														
Revenue Bonds:														
Water Sys Bd Ser 1982-A	8,000	8,000	9,000	9,000	10,000	56,000	17,000	0	0	0	0	0	0	117,000
KDHE - Sewer Imp	47,873	0	0	0	0	0	0	0	0	0	0	0	0	47,873
KDHE - Sewer Imp	468,583	0	0	0	0	0	0	0	0	0	0	0	0	468,583
USDA - Sewer Imp	0	30,000	30,000	30,000	35,000	180,000	215,000	250,000	300,000	350,000	405,000	485,000	110,000	2,420,000
Rural Water District #5	15,296	16,092	16,929	17,809	18,735	69,777	0	0	0	0	0	0	0	154,638
Capital lease-backhoe	9,579	10,076	10,598	11,147	11,724	0	0	0	0	0	0	0	0	53,124
Capital lease-Distributor	6,888	7,184	3,707	0	0	0	0	0	0	0	0	0	0	17,779
Capital lease-Trucks	7,270	7,583	0	0	0	0	0	0	0	0	0	0	0	14,853
Total Principal	563,489	78,935	70,234	67,956	75,459	305,777	232,000	250,000	300,000	350,000	405,000	485,000	110,000	3,293,850
Interest														
Revenue Bonds:														
Water Sys Bd Ser 1982-A	5,850	5,450	5,050	4,600	4,150	12,900	850	0	0	0	0	0	0	38,850
KDHE - Sewer Imp	1,566	0	0	0	0	0	0	0	0	0	0	0	0	1,566
KDHE - Sewer Imp	3,000	0	0	0	0	0	0	0	0	0	0	0	0	3,000
USDA - Sewer Imp	0	72,600	71,700	70,800	69,900	333,750	304,800	270,600	230,100	182,100	126,450	61,200	3,300	1,797,300
Rural Water District #5	7,504	6,708	5,871	4,991	4,065	6,222	0	0	0	0	0	0	0	35,361
Capital lease-backhoe	2,752	2,256	1,734	1,185	607	0	0	0	0	0	0	0	0	8,534
Capital lease-Distributor	684	388	79	0	0	0	0	0	0	0	0	0	0	1,151
Capital lease-Trucks	642	330	0	0	0	0	0	0	0	0	0	0	0	972
Total Interest	21,998	87,732	84,434	81,576	78,722	352,872	305,650	270,600	230,100	182,100	126,450	61,200	3,300	1,886,734
Total Principal and Interest	\$ 585,487	\$ 166,667	\$ 154,668	\$ 149,532	\$ 154,181	\$ 658,649	\$ 537,650	\$ 520,600	\$ 530,100	\$ 532,100	\$ 531,450	\$ 546,200	\$ 113,300	\$ 5,180,584

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 5 - PROPERTY TAXES

The city certifies its' budget to the county clerk annually. Using this certified budget and those of other political subdivisions within the county, the county clerk spreads the annual assessment onto the tax rolls and levies property tax on November 1 of each year. The property tax is payable in two installments. The first installment is due December 20 of the same year, and the second installment is due May 10 of the subsequent year. The county collects and distributes the property taxes. In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the following year's operations.

NOTE 6 - COMPENSATED ABSENCES

The City of Scranton provides sick and vacation leave to its employees. Each full time employee is entitled to eight hours of sick leave per month of service and part-time employees working at least twenty hours per month earn four hours of sick leave per month. Maximum sick leave accumulation is 1040 hours. Upon separation of service, no amount is paid to the employee for unused sick leave. Full time employees with less than 5 years of service earn eight hours of vacation for each month of service. Employees with 5-10 years of service earn ten hours per month, 10-15 years of service earn 12 hours per month, and over 15 years of service earn 14 hours per month. Part time employees who work at least 20 hours per week earn 4 hours of vacation for each month of service. Maximum accumulations vary based on years of service, but no employee can accumulate more than 240 hours of vacation. Upon separation of service, employees are paid for unused vacation leave at their regular rate of pay. Payments are made from the fund that corresponds to the employee's assignment.

NOTE 7 - DEFINED BENEFIT PENSION PLAN

Plan description The City of Scranton participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined pension benefit plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding policy K.S.A. 74-4919 establishes the KPERS member-employee contribution rates at 4% or 6% of covered salary depending on employee eligibility dates. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2011 ranged from 7.74% to 6.74%. The City of Scranton contributions to KPERS for the years ending December 31, 2011, 2010, and 2009, respectively, were \$12,751, \$10,740, and \$4,452, respectively, equal to the required contributions for each year.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 8 - COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and legal representatives of the municipality.

Kansas Statutes

Expenditures for the water, sewer, and refuse funds exceeded the budgeted limits K.S.A 79-2935. The City is aware of the requirement and will monitor in the future.

The required annual publication under K.S.A. 12-1608 was not made by the city treasurer. The City is aware of the requirement and will publish in the future as required by statutes.

Deposits with financial institutions were not adequately secured at all times in accordance with K.S.A. 9-1402. The city is aware of the requirement and will monitor in the future.

Expenditures in the trash fund exceeded the available monies in that fund K.S.A. 10-1113 by \$2,333. The city has adjusted its rates to alleviate this issue.

Management is not aware of any other items of noncompliance with Kansas statutes.

NOTE 9 – COMPARATIVE DATA

The amounts shown for 2010 in the financial statements are included, where practicable, only to provide a basis for comparison with 2011, and are not intended to present all information necessary for a fair presentation in accordance with the cash basis and budget laws of the State of Kansas. Interfund eliminations have not been made in the aggregation of this data.

NOTE 10 – ESTIMATES

The preparation of financial statements in conformity with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ.

NOTE 11 – DEPOSITS

The City requires customers to provide a security deposit on all utility service of \$200 per service. Renters deposits are held until service is terminated. Owner's deposits are refunded after two years with consecutive timely payments or after ten years whichever is earlier. Deposit detail is maintained by customer. It is impracticable to recreate a total as of a specific date, and therefore, no amount is included on the long term debt schedule.

NOTE 12 – WATER SYSTEM AGREEMENT NONCOMPLIANCE

The City's water system debt issue requires the city to charge rates sufficient to have a net operating profit of not less than 140% of the next succeeding year's principal and interest payment or \$19,390 for the year ended December 31, 2011. The city's cash receipts were \$24,039 less than its expenditures.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 13 – UTILITY SERVICE CO. AGREEMENT

The City entered into an annual water tower maintenance agreement with Utility Service Co. Inc. on July 20, 2007. The contract has an indefinite term and is cancelable at any time with a written notice 90 days prior to the first day of the upcoming contract year. The contract payment schedule is as follows: year 1-\$2,401; years 2, 3, and 4-\$19,201 per year and year 5 and subsequent years-\$7,354. In year 8 and each third anniversary thereafter, the annual fee may be adjusted up to 5% to reflect current cost of service. If the city cancels the contract prior making the fourth annual payment, they will be billed the balance for work completed.

NOTE 14 – KANSAS POWER POOL AGREEMENT

The City is a member to the Kansas Power Pool ("KPP"), a qualified Municipal Energy Agency for electrical service. KPP was created to provide generation, transmission, and pooling to meet the requirements of its members in the most efficient manner. The city is obligated to buy power from KPP at an agreed upon price. All members pay the same rate for purchases. These agreed upon prices can change with a majority vote of the membership. Per the agreement, a two year notice is required for termination. The City gave its two year notice to KPP, effective November 1, 2010, of its intent to leave the pool.

NOTE 15 – RISK MANAGEMENT

The City is exposed to various risks of loss including risks related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The city carries commercial insurance for these risks of loss including property and liability insurance. There were no significant reductions in insurance coverage from coverage in place in prior years.

NOTE 16 – SEWER PROJECT

The City has undertaken a sewer upgrade project. The total estimated project cost is \$3,715,000. The City has been awarded a CDBG grant in the amount of \$500,000. In addition, USDA Rural Development is assisting with project costs with an estimated grant of \$795,000 and loan proceeds of \$2,420,000, which includes the payoff of the City's remaining sewer notes with the Kansas Department of Health and Environment (KDHE). Temporary financing of \$2,325,000 was obtained through the Silver Lake Bank until general obligation bonds were issued and purchased by USDA-RD. The bonds were issued March 28, 2012. Phase I of the project was substantially completed in November 2011. Phase II of the project started in 2012. As of December 31, 2011, the city had expended \$2,569,474 on the project, including cash disbursements and accounts payable.

NOTE 17 – OTHER POST EMPLOYMENT BENEFITS

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

City of Scranton
Osage County, Kansas

Schedule 1 – Insurance Coverage - Unaudited
December 31, 2011

Insurance policy period May 2011 to May 2012	Coverage	Co-Ins	Deductible
Blanket Property			
Water Tower	\$165,000	90%	\$1,000
Pumphouse	19,000	90%	1,000
Tool shed 228 S Brownie	35,000	90%	1,000
Lift Station	35,000	90%	1,000
Lift Station	35,000	90%	1,000
Sports Complex - Boone St	43,000	90%	1,000
Lights & Poles	25,000	90%	1,000
Scoreboard	4,000	90%	1,000
Fence	20,000	90%	1,000
Community Center	70,000	90%	1,000
City Office Building	160,000	90%	1,000
Inland Marine			
Miscellaneous Tools	10,000	80%	500
Caterpillar Motor Grader	28,000	80%	500
Caterpillar 416B	47,500	80%	500
Chipper Shredder	2,000	80%	500
John Deere Tractor	5,000	80%	500
Police equipment	12,800	80%	500
Computer hardware & software	25,650	80%	500/1000
General Liability			
Each Occurrence Limit	1,000,000		500
Damage to premises rent	100,000		500
Medical Expense Limit	5,000		500
Personal and Advertising Injury Limit	1,000,000		500
General Aggregate Limit	2,000,000		500
Products/Completed Operations Aggregate Limit	1,000,000		500
Workers' Compensation and Employers' Liability			
Bodily Injury by Accident - each accident	500,000		
Bodily Injury by Disease - each employee	500,000		
Bodily Injury by Disease - policy limit	500,000		

This schedule is intended only as a descriptive summary.

See accompanying auditors' report.

City of Scranton
Osage County, Kansas

Schedule 1 – Insurance Coverage - Unaudited
December 31, 2011

Insurance policy period May 2011 to May 2012	Coverage	Deductible
Commercial Auto		
Liability	\$ 1,000,000	
Uninsured / Underinsured Motorists	1,000,000	
Covered Vehicles with Comprehensive and Collision also	comp collision	500 1,000
1972 Chevy 2T Fire Truck		
1990 Chevrolet Truck		
1993 Sewer Machine Truck		
1993 F700 Bucket Truck		
1993 Chevy Kodiak Dump Truck		
2008 Chevy Impala		
1997 Ford		
Linebacker		
Municipality Errors & Omissions		
Limit each loss	1,000,000	1,000
Limit aggregate	1,000,000	
EMC Insurance		
#S2 1 13 92		
Effective February 28, 2003 for an indefinite term		
Fidelity Bond on City Clerk	37,000	
Fidelity Bond on City Treasurer	10,000	

This schedule is intended only as a descriptive summary.

See accompanying auditors' report.

City of Scranton
Osage County, Kansas

Schedule of Expenditures of Federal Awards
For the year ended December 31, 2011

Federal Grantor/Pass-through Grantor Program or Cluster Title	CFDA Number	Federal Expenditures
United States Department of Housing and Urban Development		
Community Development Block Grants	14.228	\$ 496,001
United States Department of Agriculture		
Water and Waste Disposal Systems for Rural Communities	10.760	<u>1,809,323</u>
Total Federal Expenditures		<u>\$ 2,305,324</u>

See accompanying notes to schedule of expenditures of Federal Awards.

City of Scranton
Osage County, Kansas

Notes to the Schedule of Expenditures of Federal Awards
For the year ended December 31, 2011

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Scranton, Kansas under programs of the federal government for the year ended December 31, 2011. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the City of Scranton, Kansas, it is not intended to and does not present the cash receipts, cash disbursements and unencumbered cash of the City of Scranton, Kansas.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the statutory basis of accounting, which demonstrates compliance with the cash basis and budget laws of the State of Kansas. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant portion of the programs costs. Entire program costs, including the City of Scranton's portion may be more than shown. City records should be consulted to determine amounts expended or matched from non-federal sources.

ALDRICH & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mayor and City Council
208 S. Brownie Avenue
Scranton, Kansas 66537

We have audited the statutory basis financial statements of the City of Scranton, Kansas, as of and for the year ended December 31, 2011, which collectively comprise the City of Scranton, Kansas' financial statements and have issued our report thereon dated August 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the city of Scranton, Kansas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Scranton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Scranton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Scranton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, and material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2011-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as 2011-2 and 2011-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Scranton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the City of Scranton, Kansas, in a separate letter dated August 29, 2012.

The City of Scranton, Kansas' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Scranton's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City of Scranton council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aldrich & Company, LLC

Aldrich & Company LLC
Certified Public Accountants
Council Grove, Kansas
August 29, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mayor and City Council
City of Scranton, Kansas
208 S. Brownie Avenue
Scranton, Kansas 66537

Compliance

We have audited the compliance of the City of Scranton, Kansas, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Scranton's major federal programs for the year ended December 31, 2011. The City of Scranton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Scranton's management. Our responsibility is to express an opinion on the City of Scranton's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Scranton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Scranton's compliance with those requirements.

In our opinion, the City of Scranton, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the City of Scranton, Kansas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Scranton's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Scranton's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-3 to be a significant deficiency.

The City of Scranton's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Scranton's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Scranton City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aldrich & Company, LLC

Aldrich & Company LLC
Council Grove, Kansas
August 29, 2012

Schedule of Findings and Questioned Costs
City of Scranton, Kansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses a unqualified opinion on the financial statements of the City of Scranton, Kansas, on the statutory basis of accounting.
2. Three significant deficiencies were disclosed during the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. One was reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City of Scranton were disclosed during the audit.
4. Two significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133. One was reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for the City of Scranton, Kansas expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as a major program included: Community Development Block Grant/State's Program CFDA 14.228, and Water and Waste Disposal Systems 10.760.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Scranton, Kansas, was not determined to be a low-risk auditee.

FINDINGS—FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS

2011-1 Inadequate segregation of duties

Condition: There is an inadequate segregation of duties with respect to the financial recordkeeping functions. The clerk and assistant clerk are responsible for most recordkeeping and reconciliation activities with little rotation or cross-checking of duties.

Criteria: Internal controls should be in place to segregate duties, where possible, and to monitor the duties of the clerk and assistant clerk.

Cause: The City is very small with few administrative personnel.

Effect: The clerk or assistant could cease performing some of their duties with the problem not being timely detected.

Recommendation: Procedures should be implemented to segregate and rotate duties, where possible..

District response: Administrative duties will be segregated as allowed by personnel. The mayor and City Council will continue to monitor duties performed by the administrative personnel and contract for professional assistance if necessary.

SIGNIFICANT DEFICIENCIES

2011-2 Reconciliation of utilities sold versus utilities purchased

Condition: The city currently purchases it's electricity and water for resale to its customers. No comparisons are done that track the two amounts.

Criteria: Internal controls should be in place, to compare these items to minimize the city's risk of loss.

Cause: Internal controls over utility purchases were not properly designed.

Effect: Because of the lack of comparison, the city could experience loss due to billing or distribution system problems and not timely discover the error.

Recommendation: Procedures should be implemented to track both the sales quantities, purchase quantities and projected loss.

City response: We will begin to track these figures and evaluate on a monthly basis.

2011-3 Drafting of financial statements
Condition: The city did not draft their financial statements. The audit firm drafted for city approval.
Criteria: Internal controls should be in place, for city personnel to prepare financial statements or be able to take responsibility for them.
Cause: The City is very small with few administrative personnel. These personnel prepare the trial balance but do not prepare a full set of financial statements.
Effect: Information may not be relayed to the preparer of the financial statements, and therefore, omitted.
Recommendation: Procedures should be implemented to ensure that city personnel evaluating the preparation services are able to understand the preparation and to take responsibility for the preparation of the financial statements.
City response: We do prepare our financial trial balances and budgetary comparisons. However, due to limited availability of staff, we do not prepare a full set of statements. The Kansas statutory basis of accounting is relatively simple, and we feel that it is more cost effective for our staff to continue to evaluate the financial statement preparation services.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Community Development Block Grant/State's Program CFDA 14.228
Material Weaknesses & Significant Deficiencies. The material weakness and significant deficiencies at findings 2011-1 and 2011-3 also apply to this grant.

Water and Waste Disposal Systems for Rural Communities-CFDA No. 10.760
Material Weaknesses & Significant Deficiencies. The material weakness and significant deficiencies at findings 2011-1 and 2011-3 also apply to this loan.